

ACCT 743 (243)
Accounting for Mergers, Acquisitions, and Complex Financial Structures
Fall Semester 2018

Aut disce aut discede (either learn or depart)

Instructor

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Office Hours: From August 28-October 9 by appointment only; starting October 11, any Tuesday or Thursday from 10am-12noon (but please confirm in advance).

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General Course Information

ACCT 743 (243) serves as the Wharton School's "advanced accounting" course. Advanced accounting is a standard topic found at most schools that have an accounting concentration. For example, approximately 20% of the material on the CPA exam concerns topics in advanced accounting; some advanced accounting material can also be found on the CFA exam. While the course material in advanced accounting is standard, nonetheless it is very technical, and thus students who register for the course will be challenged. ACCT 243 registrants, in particular, are required to have *completed successfully* at least *one* intermediate level accounting course *before* registering for ACCT 243 (transcripts shall be screened).

The focus in ACCT 743 (243) is on *preparing* financial statements for business combinations at the time of an acquisition, and *preparing* financial statements for consolidated entities subsequent to an acquisition. As such, the course is recommended for students who, in their careers, anticipate that they will be required either to *prepare* pro forma consolidated statements for prospective acquisitions, or *analyze* the consolidated statements of existing complex financial structures. Nonetheless, I cannot overemphasize the extent to which the course adopts a **PREPARER'S** perspective – not a **USER'S** perspective. Students interested in a **USER'S** perspective on financial statements along with a case-oriented approach (as well as broader coverage of financial accounting topics in general) should register for ACCT 742 (242) "Financial Statements: Analysis & Reporting Incentives" (typically offered both semesters) and/or ACCT 747 "Financial Statement and Disclosure Analysis" (offered in the Spring Semester).

It is also important to emphasize that ACCT 743 (243), as is standard for an advanced accounting course, ignores taxes: in effect, the topic presumes that there are no corporate taxes of any variety. Students interested in tax considerations in conjunction with mergers and acquisitions should register for ACCT 897 (297) "Taxes and Business Strategy" (offered in the Spring Semester).

Textbook

The textbook for this course is *Advanced Accounting*, 13th Edition, by Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kenneth Smith (Pearson). It is *impossible* for the course material posted on Canvas to be as comprehensive as a textbook, and so students are encouraged to secure a textbook as a reference. Two less expensive alternatives to purchasing a current (13th) edition of the textbook include: 1) purchase an earlier edition (e.g., the 11th and 12th editions of this textbook

closely approximate the 13th edition); and 2) borrow the text from Lippincott Library (Lippincott typically has a few copies of the textbook available for loan).

Course website

The website for ACCT 743 (243) can be found on Canvas: <https://canvas.upenn.edu/courses>. All the course material for class **XX** is in a folder titled “Course material: Class #**XX**” in the “Files” section of the website. Course material on Canvas also includes:

- Solutions to the assigned textbook exercises and problems in *Beams et al.*
- Last year’s quizzes
- A seating chart (seating will be assigned randomly in advance); please use the seating chart – if you prefer a different seat than the one you were assigned, speak with me and I will accommodate your preference.

I typically use PowerPoint (PPT) slides in my lectures. When I intend to do so, I will post them at least a few days in advance on Canvas in the appropriate “Course material: Class #**XX**” folder. But I will not always use slides, and so the logical inference from the fact that none are posted for a particular class is that I do not intend to use them.

Office Hours

From August 28-October 9 I am simultaneously teaching both ACCT 743 (243) and ACCT 612: this means that my schedule is complicated. That said, I am more-than-happy to arrange to meet with students at a time that is convenient: all I require is that you contact me in advance to work out a time. *Note that there is no course TA!*

Requirements to Receive Course Credit

There are 2 requirements to receive course credit. *First*, I have scheduled 5 quizzes throughout the course of the semester. The following is a schedule of quizzes, dates, and material covered.

- Quiz #1 (September 13): *Beams, et al.*, Chapters 1-3
- Quiz #2 (October 2): *Beams, et al.*, Chapters 1-6
- Quiz #3 (November 1): *Beams et al.*, Chapters 12-14 and Crossholdings (Class #13)
- Quiz #4 (November 15): *Beams et al.*, Chapters 5-7 and EPS (Class #12)
- Quiz #5 (December 6): *Beams et al.*, Chapters 5-7 and Changes in Stock Ownership (Class #14)

There are no “make-up” quizzes! I will enforce this policy as follows.

- A student who takes only 3 quizzes cannot earn a grade higher than a “D”
- A student who takes only 4 quizzes cannot earn a grade higher than a “B-”

In effect, students will be need to internalize the tradeoffs arising from scheduling conflicts. The only exception to this is a documented medical emergency.¹

This policy is designed in part to accommodate students who register for ACCT 743 (243) under the auspices of “pass/fail.” Specifically, a student who takes 3 quizzes and shows competency with the course material will receive a grade of “D”; this, in turn, shall manifest as a “pass” on a student’s transcript.

¹ To my knowledge there should be no conflicts on these dates arising from religious holidays.

Each quiz is closed-book, closed-notes, and individual product; “cheat-sheets” or other summaries of class material are not allowed. The entire 80-minute class period will be set aside to complete a quiz. Each quiz shall be graded based on 50 points.

Second, all students (irrespective of how many quizzes they take) will be required to choose 10 firms from some industry, cull through the firms’ most recent 10-Ks, and prepare a report of interesting accounting issues. While I allow students considerable discretion in choosing firms, some attempt should be made to find firms with accounting issues that relate primarily, but not exclusively, to the material covered in this course. Students can prepare reports in 2-student teams.

Grade distribution

The grade distribution shall be determined as follows. First, all ACCT 743 registrants shall be put in a single pool; the pool is subject to a fixed and immutable grade distribution whose mean cannot exceed 3.33. The current electronic grading system employed by the MBA Office will not allow grades to be submitted electronically if they fail this criterion. Second, all ACCT 243 registrants shall be put in second pool; the grade distribution for the pool shall be determined based on performance relative to the ACCT 743 pool (whose mean cannot exceed 3.33). Consider the following illustration. In a class of 5 students, the 1st, 2nd, and 4th best students by rank are ACCT 743 registrants; the 3rd and 5th best students are ACCT 243 students. I assign the 1st, 2nd, and 4th best students grades of A, B+, and B-, respectively: these grades average to 3.33. Thus, the 3rd best ACCT 243 registrant must receive a grade of either B+ or B-, and the 5th best ACCT 243 registrant cannot receive a grade higher than B-.

No class credit shall be given to any student whose performance on quizzes (irrespective of how many a student takes) is more than two standard deviations below the pooled mean of *all* students. There are no exceptions to this policy.

Re-grades

Requests to re-grade quizzes are strongly discouraged! If a student has a valid inquiry about how a quiz was graded, he or she should contact the grader by e-mail at xil@wharton.upenn.edu, and then drop off his or her quiz with the grader by putting it in the mailbox of **R.Zhang** in the Accounting Suite (1300 SH-DH). If it appears that a student is making persistent, and frivolous, re-grading requests, he or she shall be prohibited from making additional requests.

Last year’s quizzes

The class folder on the course website on Canvas for the class that *precedes* a quiz will contain the equivalent quiz used in 2017 (with a solution). The reason why I only provide the 2017 quiz is that there are a surfeit of changes in accounting pronouncements that govern business combinations every 2-3 years; thus, ‘old’ quizzes become obsolete very quickly (i.e., the questions are still valid but the ‘suggested solutions’ are no longer correct!).

This year’s quizzes

Quiz answers and summary performance statistics shall be posted on the course website on Canvas as soon as the grading has been completed.

Schedule of Assignments

The schedule of assignments begins on page 5. The following is a guide to interpret the schedule of assignments.

- “*Beams et al.*” is a reference to the course textbook, *Advanced Accounting*, 13th Edition, Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kenneth Smith (Pearson).
- All course material other than the textbook will be posted on the course web site on Canvas. Note that with regard to the course material, “rev” is a reference to documents authored by Robert E. Verrecchia.
- “**Exercises**” is a reference to exercises and problems in *Beams et al.* For example, “P 6-9” is a reference to Problem 9 at the end of chapter 6 of *Beams et al.* Suggested solutions to all exercises and problems in *Beams et al.* will be posted on Canvas. If there are no **Exercises** listed for a particular class, this means that none have been assigned.
- Note that I will not test the material on three topics listed in the schedule of assignments:
 1. “Tax Considerations in Mergers,” scheduled for September 11;
 2. “Corporate Liquidations & Reorganizations,” scheduled for September 27;
 3. “Segmental and Interim Financial Reporting,” scheduled for December 4.

These topics are introduced primarily to edify and provide perspective. All other topics covered in the class will be tested at some point in the semester.

Schedule of Assignments

August 28 Class #1	Course Overview 1) <i>Beams et al.</i> , Chapter 1 2) <i>Class #1 Exercises</i> , rev	Exercises E 1-3, E 1-4, E 1-5
August 30 Class #2	Business Combinations 1) <i>Beams et al.</i> , Chapter 1 2) <i>Class #2 Exercises</i> , rev	Exercises P 1-1, P 1-3, P-4
September 4 Class #3	Stock Investments 1) <i>Beams et al.</i> , Chapter 2 2) <i>Plant, Sun, and Star Exercises #3-6</i> , rev	Exercises E 2-12, P 2-6, P 2-9, P 2-12
September 6 Class #4	Introduction to Consolidated Investments 1) <i>Beams et al.</i> , Chapter 3 2) <i>Control Considerations in Consolidated Investments</i> , rev 3) <i>Class #4 Exercises</i> , rev	Exercises P 3-1, P 3-7, P 3-11
September 11 Class #5	Tax Considerations in Mergers 1) <i>Beams et al.</i> , Chapter 10, pp. 335-341 2) Quiz #1 (2017)	
September 13 Class #6	Quiz #1: <i>Beams, et al.</i>, Chapters 1-3	
September 18 Class #7	Consolidation Techniques and Procedures 1) <i>Beams et al.</i> , Chapter 4, pp. 99-111 2) <i>Working Paper Adjustments</i> , rev 3) <i>Class #7 Exercises</i> , rev	Exercises P 4-6, P 4-9, P 4-11
September 20 Class #8	Intercompany Transactions – Inventories 1) <i>Beams et al.</i> , Chapter 5 2) <i>Class #8 Exercises</i> , rev	Exercises P 5-1, P 5-4, P 5-9
September 25 Class #9	Intercompany Transactions – Depreciable and Non-depreciable Assets 1) <i>Beams et al.</i> , Chapter 6 2) <i>Class #9 Notes & Exercises</i> , rev	Exercises P 6-1, P 6-6, P 6-9

Schedule of Assignments

September 27 Class #10	Corporate Liquidations and Reorganizations 1) <i>Beams et al.</i> , Chapter 18 2) <i>Fresh-Start Accounting: What Is the Implication on Reported Earnings of Companies Emerging from Chapter 11?</i> , Soo Kim (WG '06), 2006 3) Quiz #2 (2017)	
October 2 Class #11	Quiz #2: <i>Beams, et al.</i> , Chapters 1-6	
October 4	Official Fall Break – NO CLASS!	
October 9 Class #12	Preferred Stock, EPS, Consolidated EPS 1) <i>Beams et al.</i> , Chapter 10, pp. 309-320 2) <i>EPS Exercises</i> , rev	Exercises P 10-2, P 10-6, P 10-9
October 11 Class #13	Crossholdings 1) <i>Beams et al.</i> , Chapter 9 2) <i>Crossholdings Exercises</i> , rev	Exercises P 9-1, P 9-3, P 9-6
October 16 Class #14	Changes in Stock Ownership 1) <i>Beams et al.</i> , Chapter 8 2) <i>Ownership Dilution</i> , Katherine Daly (WG' 09), 2009 3) <i>Venezuela Devaluations</i> 4) <i>Dilution Exercises</i> , rev	Exercises P 8-2, P 8-3, P 8-4
October 18 Class #15	Derivatives and Foreign Currency 1) <i>Beams et al.</i> , Chapters 12 and 13 2) <i>How the Pound's Plunge 'Cost' AB InBev \$13 Billion</i>	Exercises P 13-5, P 13-6, P 13-8
October 23 & 25 Classes #16 & 17	Foreign Currency Translation & Remeasurement 1) <i>Beams et al.</i> , Chapter 14 2) <i>Argentina's Much-Needed Devaluation...</i> 3) <i>Translation and Remeasurement Exercises</i>	Exercises P 14-1, P 14-9, P 14-5, P 14-6

Schedule of Assignments

October 30 Class #18	Review for Quiz #3 1) Quiz #3 (2017)	
November 1 Class #19	Quiz #3: <i>Beams et al.</i> , Chapters 12-14 and Crossholdings (Class #13)	
November 6 Class #20	Intercompany Transactions – Debt 1) <i>Beams et al.</i> , Chapter 7 2) <i>Intercompany Debt Exercises</i> , rev	Exercises P 7-1, P 7-3, P 7-6
November 8 Class #21	Interpreting Consolidated Data 1) <i>Beams et al.</i> , Chapter 7 2) <i>Interpreting Consolidated Data</i> , rev	Exercises P 7-4
November 13 Class #22	Review for Quiz #4 1) Quiz #4 (2017)	
November 15 Class #23	Quiz #4: <i>Beams et al.</i> , Chapters 5-7 and EPS (Class #12)	
November 20 Class #24	TBA	
November 22 No Class!	Thanksgiving Break	
November 27 Class #25	Capstone Cases 1) <i>Capstone Cases</i> , rev 2) <i>Financial Restatement Trends...</i>	
November 29 Class #26	Review for Quiz #5 1) Starbucks Case on Noncontrolling Interest 2) Quiz #5 (2017)	
December 4 Class #27	Segmental and Interim Financial Reporting <i>Beams et al.</i> , Chapter 15	
December 6 Class #28	Quiz #5: <i>Beams et al.</i> , Chapters 5-7 and Changes in Stock Ownership (Class #14)	